



DBF

Diversified Bond Fund

**Julie A. Ellsworth
Idaho State Treasurer**

DBF Investment Statement of Understanding

Purpose

The Diversified Bond Fund (DBF) has been created by the Idaho State Treasurer's Office (STO) as an alternative investment to the short-term investment funds such as the Local Government Investment Pool (LGIP) and IDLE, for those State Agencies, Public Agencies, and Municipalities (Participants) who are able to assume less liquidity and more price volatility for the potential of greater returns over the long run.

Investment Authority

The pooled funds of the DBF will be invested in accordance with Idaho Code Sections 67-1210 and 67-1210A. Subject to the terms and conditions of the DBF Investment Policy and this Statement of Understanding, the STO shall have full discretionary power to direct the investment, exchange, liquidation and reinvestment of assets under its management.

Investment Objectives

The investment objective of the DBF is to provide a total return consistent with a high-quality intermediate term diversified fixed income portfolio. Investment management emphasis is placed on total return. Participants are required to reinvest income distributions. Based upon historical market performance, it is anticipated that returns over extended periods will be greater in the DBF than in shorter maturity alternatives such as the LGIP or IDLE portfolios.

Participation in the DBF is voluntary. The DBF is a variable Net Asset Value (NAV) fund in which ownership is proportionate and is based on market value. Since the DBF is invested with an intermediate term weighted average maturity, Participants can expect the NAV of their investment in the DBF to fluctuate over time. Participants should therefore only invest monies that they consider longer-term in nature (such as 3 years or longer). Due to interest rate changes and market movements, it is possible to lose money by investing in the DBF.

The benchmark for the DBF is a blended Index consisting of 75% the Bank of America Merrill Lynch U.S. Corporate & Government 1-10 years A rated and above (B510 Index) and 25% the Bank of America Merrill Lynch Mortgage Master (M0A0 Index). The performance will be measured on a total return basis, quarterly at a minimum.

Custodial Banks

The Custodial Bank ("Custodian") is responsible for the safekeeping of assets. Northern Trust has been retained as the STO's Custodian. All investment transactions are executed by Northern Trust per written instructions.



DBF

Diversified Bond Fund

**Julie A. Ellsworth
Idaho State Treasurer**

Eligibility

The DBF is open to all political subdivisions, including (but not limited to): cities, towns, counties, public retirement systems, state agencies, public agencies (see Idaho Code Section 67-2327), school districts, public charter schools, health districts, irrigation & soil districts, water & sewer districts. Municipalities must have an LGIP account in order to participate in the DBF.

Establishing and Maintaining Accounts

A Participant can request to join the DBF by submitting a completed application. This form and other required forms can be obtained from the STO website (www.sto.idaho.gov). This application must be approved by the Participant's governing body and signed by at least one authorized signatory of the governing body before submission to the STO. Each application should identify the contact person(s) authorized to request transactions, along with address and phone numbers. Upon receipt and review of the completed application, if the Participant is eligible, the STO will set up the new account and provide the Participant with account information, including the DBF number. If the Participant is ineligible, the STO will notify the Participant of the decision. It is the Participant's responsibility to notify the STO of any changes to the list of authorized users. Changes will only be accepted if signed by an authorized member of the board. The STO will not knowingly process any request made by a person not listed as an authorized user for that fund. It is the Participant's responsibility to safeguard passwords and other information required to request a transaction. The STO will not be responsible for transactions made using such confidential information.

Interest and Yields

The DBF distributes and reinvests all interest received during any given month effective on the first day of the following month, to the individual DBF account.

The Distribution Yield is calculated using the following formula:

- $365 \text{ divided by actual number of days in the month, multiplied by } 100 = \text{factor}$
- $\text{Net earnings divided by average daily balance, multiplied by factor} = \text{distribution yield}$

Administrative Fee

The Administrator of the DBF shall charge a service fee; the fee is the cost to operate the DBF for the month. The current fee is 1.3 basis points (.013%). This fee will be deducted from the income earned prior to distribution.

Audit Confirmations

All audit confirmations from agency auditors should be directed to:

Idaho State Treasurer, Julie A. Ellsworth
Investment Division
P. O. Box 83720
Boise, Idaho 83720-0091



DBF

Diversified Bond Fund

**Julie A. Ellsworth
Idaho State Treasurer**

The Participant name, fund number(s), and amounts to be confirmed should be listed on the confirmation. It is the policy of the STO to confirm only the balance in the account, the current earnings accrued, and the current distribution yield.

Statements

A monthly statement for each fund will be available online on e-Bank, ebank.sto.idaho.gov, on or around the 10th day of each month for the month just ended. An investment portfolio summary will be available quarterly as soon as available on the DBF homepage on the STO website (www.sto.idaho.gov).

The monthly statement shows any contributions into and withdrawals out of the fund, any interest reinvested into the fund on the first day of the month, gains and/or losses due to withdrawals, and account summary information. The Participant is responsible for reviewing monthly statements for accuracy, and if there are any questions, the STO should be contacted immediately.

Procedures for Withdrawals from the DBF

The Participant shall submit requests via the e-Bank website (<https://ebank.sto.idaho.gov>), e-mail or by telephone at (208) 332-2980 or (800) 448-5447. Withdrawal amounts of \$10 million or more, or the closing of a fund account valued at \$10 million or more requires a minimum notice of 25 days prior to the last day of the month. Withdrawals less than \$10 million or the closing of a fund account valued at less than \$10 million must be received five (5) business days prior to the last day of the month. Requests failing to meet these deadlines will be processed for the next month.

State Agencies – Provide all appropriate [Luma](#) transaction coding for processing of withdrawal. The STO will generate a file based on the Luma coding received to be sent to the State Controller's Office (SCO) to update balances accordingly.

Municipalities – The STO will process the withdrawal and deposit all net funds into your designated LGIP account.

The STO may determine, in its sole discretion, that a Participant's frequent withdrawals indicate the funds are being invested outside the objectives of the DBF. Upon such a determination, the STO reserves the right to liquidate a Participant's investment within the DBF and return the proceeds to the Participant.

All transactions will occur on the last business day of the month.

Procedures for Contributions into the DBF

The Participant shall submit requests via the e-Bank website (<https://ebank.sto.idaho.gov>), e-mail or by telephone at (208) 332-2980 or (800) 448-5447.



DBF

Diversified Bond Fund

**Julie A. Ellsworth
Idaho State Treasurer**

State Agencies – Provide all appropriate [Luma](#) transaction coding for processing of contribution. The STO will generate a file based on the Luma coding received to be sent to the SCO to update balances accordingly.

Municipalities – The STO will process the contribution and withdraw the funds from your designated LGIP account.

All transactions will occur on the last business day of the month.

Revised: 06/15/23